Union Gas 1977 Annual Report

Heavy snowfalls and record low temperatures marked the winter of 1976-77 throughout the Union Gas service territory.

On the cover. Many millions of years ago a tropical sea covered what is now known as Southwestern Ontario. The corals that grew in that sea formed mound or reef-type structures which today provide assurance of reliable gas deliveries not only to Union Gas customers but also to gas users elsewhere in Ontario and Quebec.

These reefs, buried deep beneath the surface of the ground, were a source of natural gas earlier in this century. Today, however, they serve as underground storage pools for gas delivered from Western Canada during late spring, summer and early fall, and held ready for use during the winter season.

Reef rock is porous — like a petrified sponge. A sample of ancient reef rock is depicted in magnified cross-section on the cover of this Report.

Besides protecting Eastern Canadian gas users from accidental or unforeseeable interruption of deliveries from the west, the stored gas made possible emergency shipments to the U.S. when last winter's energy crisis occurred. (See pages 10 and 11.)

UNION GAS LIMITED

News Release

YUNION

FOR IMMEDIATE RELEASE

May 10, 1978

CHATHAM—Union Gas Limited today reported income of $25.3 million, before deduction of an extraordinary item, for the fiscal year ended March 31, 1978. This was 4.4 per cent greater than in fiscal 1977.

Basic earnings per common share were $1.23 (or $1.01 after deduction of the extraordinary item) compared to $1.34 in fiscal 1977. The reduction in earnings per share reflects an increase in the number of outstanding common shares—from 15.8 million in fiscal 1977 to 17.9 million in fiscal 1978.

The extraordinary item was the write-off of expenditures by Union in Canadian Arctic Gas Study Limited, whose application to build a northern pipeline was denied by the National Energy Board last summer. As previously reported, the write-off amounted to $3.9 million after taxes.

25.3

3.9

21.4

Union's total revenues, also before the CAGSL write-off, were $559.6 million for fiscal 1978. This was an increase of 14.3 per cent over earnings for the prior fiscal year.

Annual dividend per common share increased to 74 cents for fiscal 1978 from 69 cents in the previous year.

While gas sales volume decreased by 2 per cent in 1978, gas sales revenue increased by 13.7 per cent to $502.7 million, largely as a result of increases in customer rates to cover an 18.7 per cent increase in the cost of gas bought by the Company, President William G. Stewart said.

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Mr. Stewart noted that gas sales were "restrained by the effects of weather and conservation, by the low level of general economic activity and by intense competition from residual oil which is in excess supply and is being sold at distress prices in the industrial market". Nonetheless, both the volume sold and income before the write-off "remained at levels close to those of fiscal 1977".

Mr. Stewart reported that storage and transportation services being contracted for by other utilities are providing the Company with "increasingly significant revenues". Realty revenues, through Major Holdings & Developments Limited, totalled $19.7 million in fiscal 1978, up from $18.9 million in 1977. Assets of this 85.6 per cent-owned subsidiary rose to $76.3 million, an increase of 85 per cent since the majority interest was acquired in 1976.

Union's western Canada exploration and development operations continued to expand during the year, with participation in the drilling of 78 wells, of which 44 were completed for production. A major aspect of these operations is a three-year joint venture with Hudson's Bay Oil and Gas, launched in June 1977, which calls for Union to invest $21 million in gas and oil exploration.

The complete Annual Report on the Company's results for fiscal 1978 will be issued to shareholders later this month. The annual shareholders' meeting will be held at Chatham, June 22.

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Comparative highlights

	March 31, 1977	March 31, 1976
Total revenues	$489,490,000	$327,618,000
Net income for the year	$ 24,283,000	$ 19,391,000
Dividends on preference shares	$ 3,158,000	$ 3,180,000
Earnings applicable to common shares — total	$ 21,125,000	$ 16,211,000
— per share (basic)	$ 1.34	$ 1.07
Dividends declared on common shares — total	$ 10,758,000	$ 9,672,000
— per share*	$ .69	$ .64
Natural gas sales MCF**	245,678,000	233,594,000
Total customers at year end	418,000	405,000
Average gas use per customer MCF — residential	143.4	131.1
— commercial	1,052.4	1,014.2
Maximum day send-out MCF	2,460,000	2,231,000
Construction expenditures	$ 50,367,000	$ 45,425,000
Gross properties at year end	$494,628,000	$449,063,000

*Annual rate per class A common share at year end
**MCF means thousand cubic feet

Contents

Letter to the shareholders

The fiscal year which ended March 31, 1977 presented Union Gas with a severe and demanding test of its operational effectiveness. The challenges of the coldest winter in the Company's history were successfully met and the year was an outstanding one in terms of service to customers and contribution to national and North American energy deliveries, as well as in revenues and earnings. In particular the importance of the gas storage facilities to the Company's overall operating flexibility was demonstrated in dramatic fashion.

Cost of gas to Union, and therefore to its customers, continued to rise during the year. However, there was a welcome improvement in the prospects for future supplies of gas as a result of additions to reserves in Alberta and in frontier areas.

Earnings of $1.34 per common share were 27 cents higher than in the preceding year, largely because of the increased volume of sales due to the exceptionally cold weather. It is estimated that earnings were 18 cents higher than would have been the case if weather conditions had been normal.

The Company's gas rate schedules are established by the Ontario Energy Board on the basis of the annual revenue that would be received if temperatures throughout the year were

President William G.Stewart,
Executive Vice-President Frank Capewell,
Chairman C.Malim Harding.

average–based on 30 years of past weather experience. This means that where temperatures vary significantly from the average, revenue and earnings may be somewhat higher or lower than the levels foreseen by the Energy Board. In fact, in the four previous fiscal years Union's attained rate of return was consistently lower than that allowed by the Board. The most recent determination by the OEB of a fair and reasonable rate of return for Union Gas was 10.14%, based on fiscal 1976 as the test year. The return experienced in that fiscal year was 9.63%. While the return in fiscal 1977 was about 10.5%, the year's higher earnings do not offset fully the shortfall of the past few years.

The establishment of an allowable rate of return is intended to provide reasonable assurances of the Company's continued financial soundness and of its ability to generate sufficient funds for its increasingly costly capital investment program.

In fiscal 1977, capital expenditures totalled $50 million. For the current fiscal year the capital budget has been set at $64 million.

The Federal Government, under the terms of the Petroleum Administration Act (Canada), determines the wholesale price of crude oil and natural gas in the non-producing provinces. During the fiscal year two price increases were implemented, effective July 1, 1976 and January 1, 1977. The resulting higher cost of gas, as well as uncontrollable increases in other costs of conducting our business, caused the Company to make five separate applications to the OEB for approval of higher rates during the fiscal year. Three of these applications affected the residential, commercial and industrial customers and two dealt with charges for storage service for other utilities. Such rate proceedings, involving lengthy and detailed public hearings with active participation by intervenors, place a heavy demand on the Company's management and add to Union's overall costs.

The Federal Government has announced further price increases at the wholesale level, to become effective July 1, 1977 and January 1, 1978, and inflation continues to cause higher costs of operation and maintenance. Government policy is to raise energy prices in Canada to world levels. The stated objective of this policy is to encourage conservation, offer an incentive for exploration, and at the same time make economically attractive the marketing of high-cost frontier reserves of hydrocarbons and the development of alternative energy sources.

The severity of the past winter resulted in a natural gas shortage in the United States. Union Gas had ample reserves of gas in underground storage to ensure deliveries to our own customers throughout the cold months, and was able to co-operate with the Canadian and U.S. governments in arranging for the diversion to the U.S. of deliveries by our supplier, TransCanada PipeLines Limited. Under this arrangement 17.8 billion cubic feet (Bcf), which would ordinarily have been delivered to Union, was shipped to those areas of the U.S. most in need of gas. TransCanada will replace this volume during the coming summer with additional Alberta production at the same prices as were in effect during the period of diversion.

The example of the U.S. energy shortage should not be lost on Canada. However, Canada need not face a situation of shortage if we act now to ensure that the intervening years are used for construction of the facilities to bring needed Mackenzie Delta and Beaufort Sea gas reserves to the consuming marketplace. Moreover, Canada's production of crude oil is decreasing and our nation's dependency on high cost imported oil will lead to severe balance of payments problems. These can be alleviated if Arctic gas is available to meet some energy requirements which would otherwise have to be met by off-shore oil. Union Gas continues as a member of the Canadian Arctic Gas Pipeline project and has urged the Federal Government to come to an early and favourable decision. We know of no other energy alternative which can deliver significant supplies as early or as economically as the Canadian Arctic Gas proposal.

Canada's future energy needs will not be solved totally by the delivery of Arctic natural gas. A growing Canada will need an expanding supply of all forms of energy. However, all new energy, renewable or non-renewable , will be more expensive than that now available. It is clear that the growth in energy consumption must be held to the minimum necessary to meet the needs of our citizens and industries.

The identification recently of new natural gas reserves both in Western Canada and the Arctic reinforces our view that gas will be providing an ever-increasing share of the energy needs of Southwestern Ontario and the country as a whole. For the short term, growth in gas consumption will be constrained by the predicted limited improvement in economic activity, by better energy management and by competition due to the increased production of residual oil resulting from new refinery capacity. This lower-grade oil underprices gas in certain applications.

Recent Federal Government gas pricing decisions show an awareness of the need to reduce Canada's dependency on imported oil by enabling the gas industry to remain competitive and attract a fair share of future energy market growth. Union Gas is confident of adequate future gas supplies and will provide service to new customers where it is economically feasible.

The excellent reception of the new issue of 2,200,000 Union Gas Class A Common Shares, marketed on March 29, 1977, is an indication that your Company continues to be regarded as an attractive utility investment with prospects for continued growth.

The Directors take this opportunity to express their thanks to all Union Gas employees for their efforts in the past year to improve operations and service to the customers under trying conditions of escalating rates and extraordinary peak demands.

On behalf of the Board of Directors.

C.M. Harding

Chairman of the Board

President and Chief Executive Officer

Chatham, Ontario, May 11, 1977


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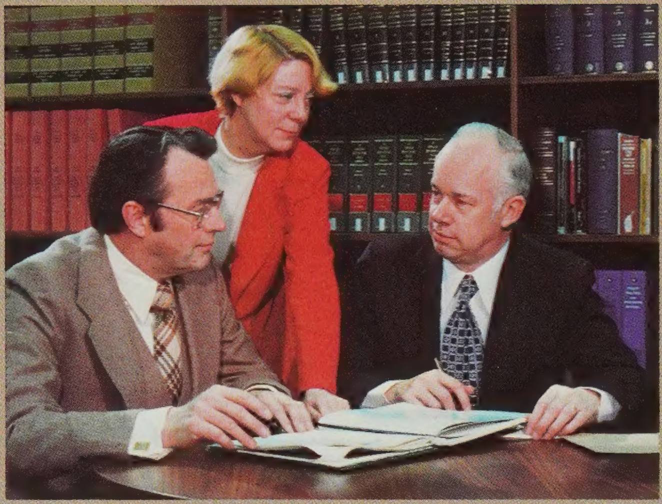
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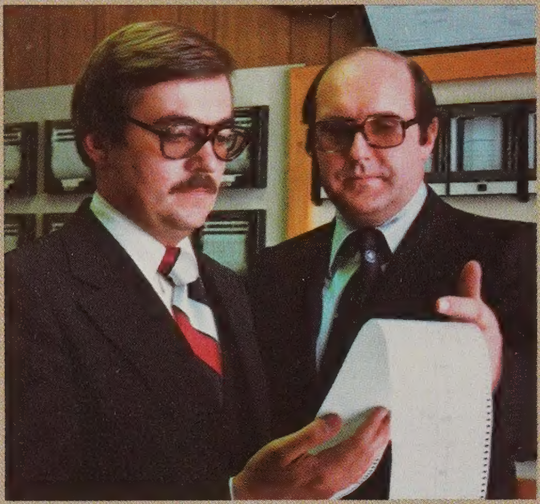
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Management reorganization

During the year a major reorganization of the Company's senior management structure was carried out. This realignment was considered necessary because of the Company's continuing heavy involvement in regulatory activities, as well as the plans for continued growth and broadening of the base of operations.

All functions directly related to Union's utility operations have been brought together in a substantially self-contained group reporting to the Executive Vice-President. Giving effect to the utility grouping, the following appointments were made: Executive Vice-President – Frank Capewell; Vice-President, Operations – Francis M. Edgell; Vice-President, Administration – John Webel; Vice-President, Marketing – Stephen T. Bellringer; Vice-President, Engineering and Gas Transmission – Donald C. Ingram.

The new structure provides for a separate grouping of those executives who will perform some functions for the utility operation, but who will also direct their attention to regulatory and corporate activities, including the planned expansion of energy-related activities. The corporate group, reporting directly to the President, consists of the following executives: Vice-President, Corporate Planning and Development – R. Glen Caughey; Vice-President, Finance – Henry B. Arndt; Vice-President and General Counsel – John B. Jolley; Vice-President, Corporate Personnel – Glenn I. Wonnacott; Vice-President, Corporate Affairs – J. Edwin Mahoney; Corporate Secretary – Edna Crawford.

(1) Mr. Ingram, Mr. Edgell. (2) Mr. Jolley, Mrs. Crawford, Mr. Mahoney. (3) Mr. Webel, Mr. Wonnacott. (4) Mr. Bellringer, Mr. Caughey. (5) Mr. Arndt, with Treasurer Gerald E. Miller and Assistant Vice-President, Finance R. Gordon James.

Financial review

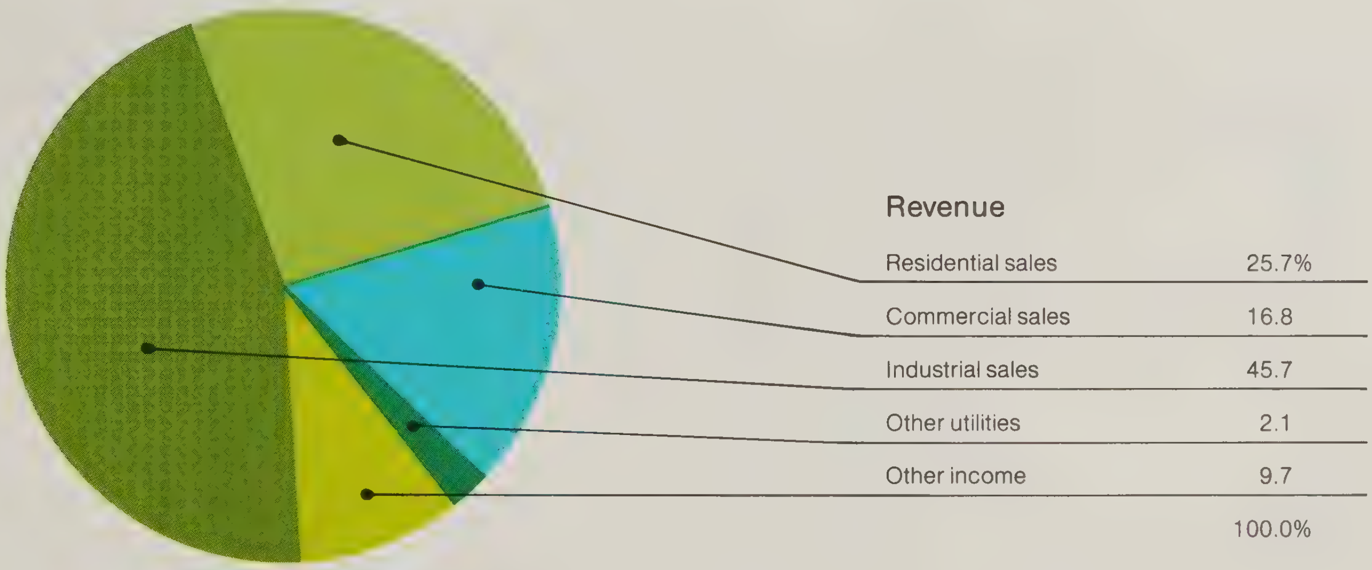
Revenue. Total revenue received in the 1977 fiscal year was $489.5 million, or 49.4% over that reported for the previous fiscal year.

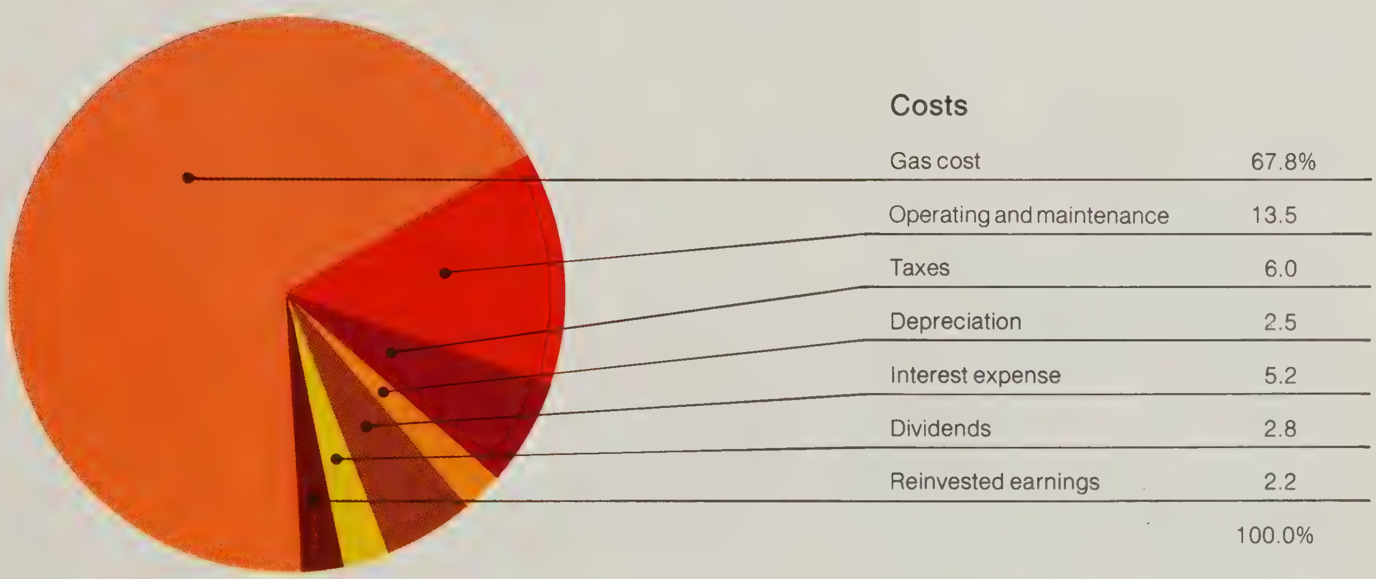
Gas sales revenue of $442 million was 45.4% higher than in fiscal 1976. Most of the gain is attributable to rate increases necessitated by higher costs, particularly cost of gas. However, volume of gas sold was 5.2% greater than in the previous year. On a degree day basis, weather throughout the fiscal year was 11.2% colder than normal and 15.6% colder than in fiscal 1976. Sales to the residential market are, of course, largely for home heating and are thus directly related to weather conditions. This category showed a 12.8% volume increase over the prior year's sales. Commercial sales volume rose by 8.5%. Sales in the industrial category, reflecting the relatively flat level of economic activity, rose by 1.7%.

With the acquisition of control of Major Holdings at the commencement of the fiscal year, realty revenue is now shown separately in the Statement of Income. This revenue totalled $18.9 million for the year ended March 31, 1977. Comments on the operations of Major are included elsewhere in this Review.

Other income rose by 21.1% to $28.6 million, due principally to increased revenue from transportation and storage services provided to other utilities, and to revenue resulting from an exchange agreement with the Company's main supplier, TransCanada PipeLines Limited. This allowed TransCanada to make emergency deliveries to certain utilities in the United States. The portion of the revenue from this transaction applicable to fiscal 1977 is $1.8 million and the balance will be credited to income in fiscal 1978. Additional revenue also resulted from service work for customers, delayed payment charges and rental of gas appliances and equipment.

Costs. Total expenses for fiscal 1977 were $441.4 million, compared with $290.1 million for the prior year. Of the increase of $151.3 million, $15.7 million is attributable to the reporting of Major Holdings costs separately in fiscal 1977. The largest element of the increase was the cost of gas which rose to $331.6 million, an increase of $118.6 million, or 55.7%, over that for the 1976 fiscal year. During fiscal 1977 Union's average cost per





thousand cubic feet (Mcf) of gas purchased from TransCanada PipeLines Limited was $1.36 compared to $.98 for the previous fiscal year, as the result of agreement between the Federal and Alberta governments.

Operating and maintenance costs increased $6.4 million, or 14.6%, over fiscal 1976. Higher wages, salaries and related benefits were the most significant factors in the increase. In addition, higher costs were incurred in moving additional gas to market during the cold winter season.

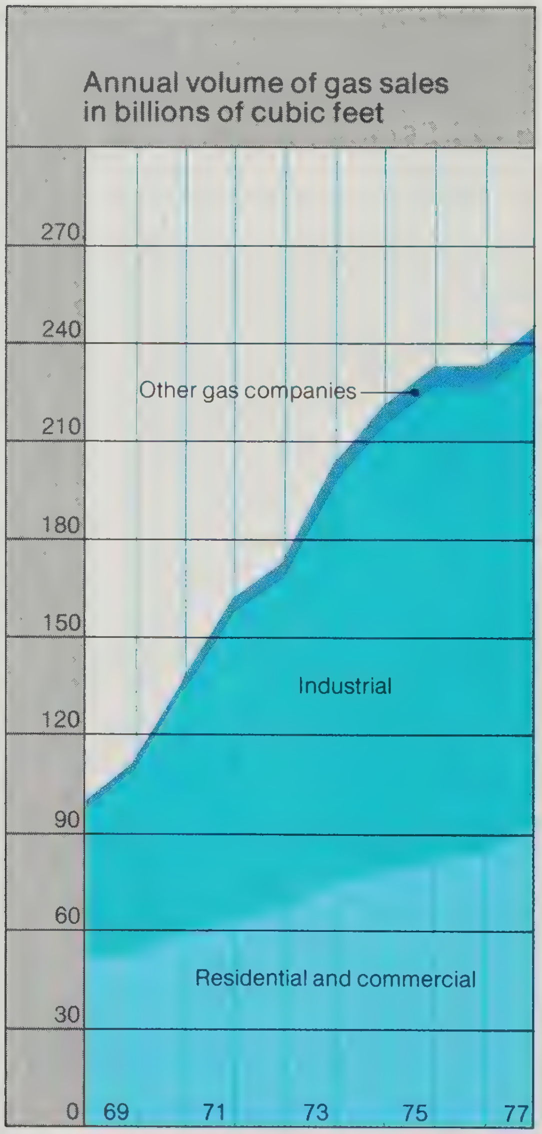
Interest expense for the year increased 33.2% to $25.4 million. This resulted from the larger amount of long-term debt outstanding at a higher average interest rate, which more than offset a decline in short-term borrowing rates occurring late in the fiscal year.

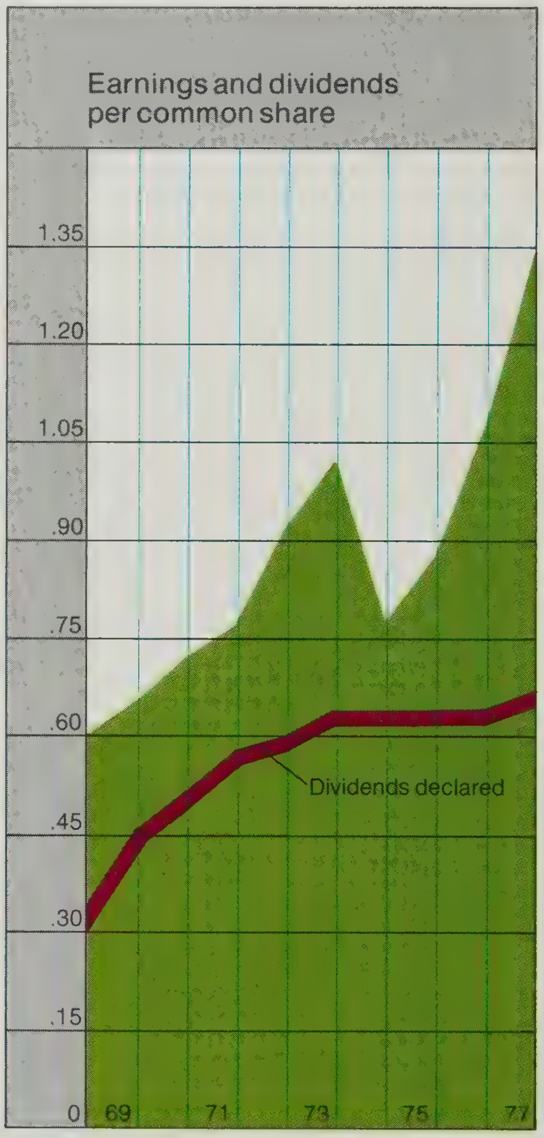
Financing. In July 1976 the Company sold $40 million 10⅝% Sinking Fund Debentures, 1976 Series due July 15, 1996.

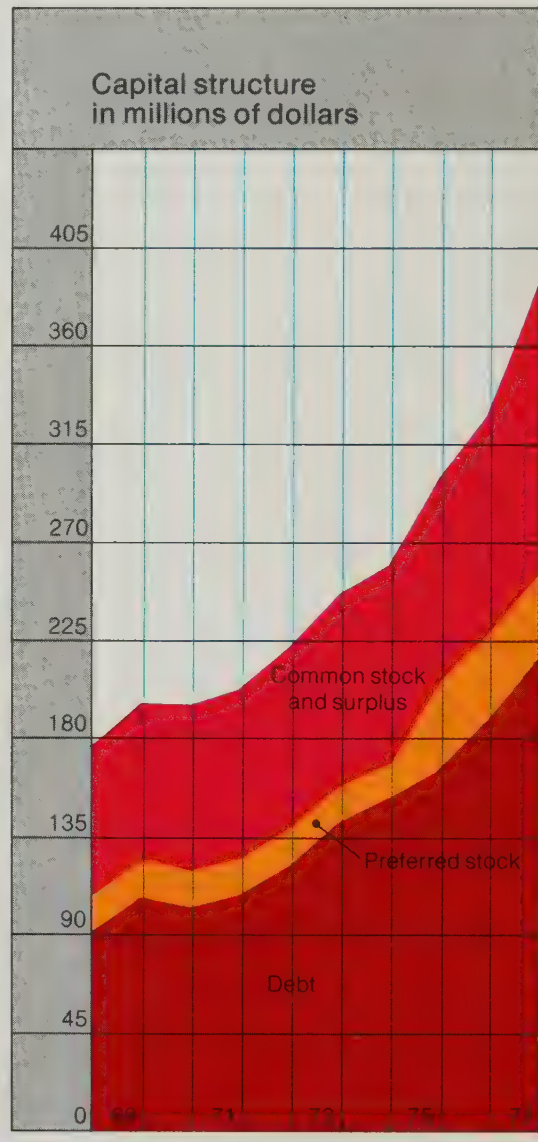
In March 1977 the Company successfully offered for sale an additional 2,200,000 Class A Common Shares at a price of $9⅛ per share. Net proceeds of $18.9 million from the sale of these shares were used to reduce bank loans and other short-term borrowings. The decision to issue further common shares recognized the need for additional common equity capital, so as to maintain an appropriate capital structure to permit future growth.

Rates and regulation

In July 1976 the Ontario Energy Board released its decision on Phase I of the main application filed November 5, 1975, for a full review of the Company's rates. The decision established Union's allowable rate of return as 10.14% on a rate base of $467 million. The Board found that the annual revenue requirement was greater than the revenue actually produced by the Company's existing rate schedules. For the 1976 test year the amount of the deficiency was $16.4 million. The Company immediately applied to the Energy Board for interim relief to offset such revenue deficiency, as well as to recover a July 1, 1976 increase in the cost of gas resulting from an agreement under the Petroleum Administration Act (Canada) between the Federal and Alberta governments. By an interim order issued in August 1976, the Company was authorized to increase its rates sufficiently to







recover the revenue deficiency and the July 1, 1976 gas cost increase.

During the fiscal year two further interim increases were authorized by the Energy Board. In December 1976 the Board granted interim rate relief to offset increased labour costs as approved by the Anti-Inflation Board. Effective March 1, 1977 approval was received for higher interim rates as a result of the January 1 increase in the cost of gas under the agreement referred to above between the Federal and Alberta governments.

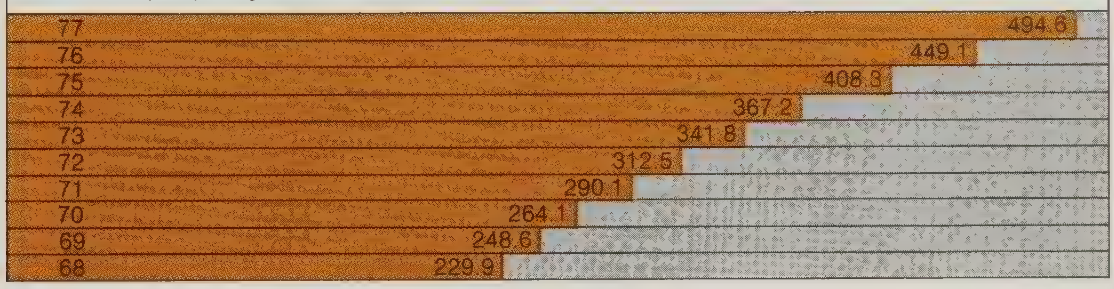
Proceedings under Phase II of the main rate application, dealing with the allocation of the established revenue requirement among the various classes of customers, commenced November 24, 1976. The hearing was completed in April 1977 and the Board's decision is expected shortly. The Company is requesting that the Board give final approval to rate schedules that produce essentially the same revenue as those now in effect on an interim basis.

System expansion and renewal

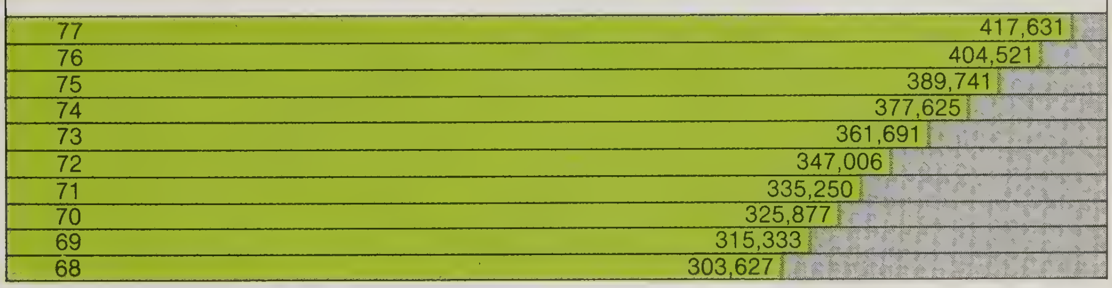
Total capital expenditures in the fiscal year were $50.4 million. They reflect the continuing program of expansion and renewal of facilities required to serve the growing needs of natural gas customers in Southwestern Ontario and to meet the transmission and storage requirements of other utilities.

Distribution facilities. During the year new firm service volume, representing the annual requirements of 13,110 new customers, was added. This involved expenditures of approximately $14.7 million related to the installation of distribution mains, service lines, meters and regulators. In addition, some $10.2 million was used to replace distribution facilities serving existing customers. The Company continued its policy of reviewing design specifications to minimize the increases in capital cost per new customer, as well as applying stringent economic tests to ensure that our capital expenditures provide an adequate return.

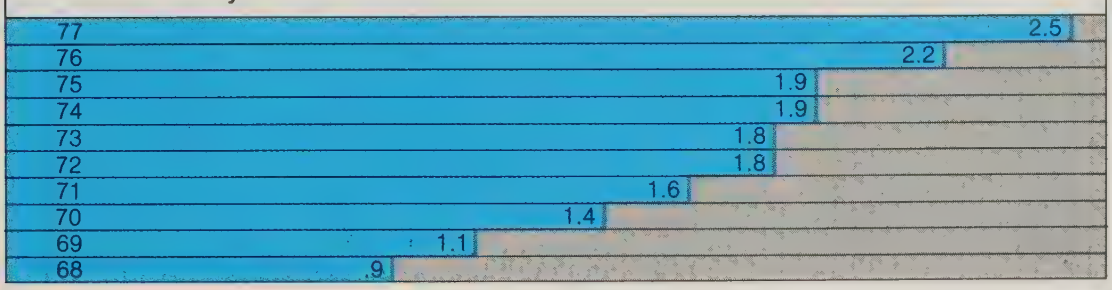
Our customers are expressing concern at continually rising gas bills. Retail bills for customers served by our distribution system rose by some 21.6% during fiscal 1977. The Company conducts an ongoing program of communication with its



Gross property account in millions of dollars



Number of customers served



Maximum day send out in billions of cubic feet

customers, providing information on the reasons for gas cost increases at the wholesale level and on the Company's other increased costs of operation. In spite of this program, a record number of enquiries regarding bills were received during the year. To handle all customer enquiries more efficiently, and to reinforce the communication program, a number of changes have been implemented. Improved operating procedures and monitoring programs have been instituted to help control operating costs and provide more efficient customer service.

Transmission and storage facilities. Capital expenditures amounted to $13.9 million for transmission, storage and compression facilities. One of the larger projects was the construction of an additional 4.8 miles of 42 inch pipeline in the looping of the Dawn-Trafalgar transmission pipeline system.

Significant programs were also implemented to re-design and upgrade a number of the Company's pressure regulating stations, to allow for expansion and to meet more exacting safety and operational standards. $2.8 million was used for

Gas sales volume and revenue

	Volume in billions of cubic feet			Revenue in thousands of dollars		
Class of customer	Year to March 31 1977	% of total	% over 1976	Year to March 31 1977	% of total	% over 1976
Residential	52.2	21.3	12.8	$125,521	28.4	51.9
Commercial	42.4	17.2	8.5	82,416	18.7	44.2
Industrial	144.9	59.0	1.7	223,743	50.6	42.1
Other gas distributors for re-sale	6.2	2.5	5.9	10,314	2.3	51.4
Total	245.7	100.0	5.2	$441,994	100.0	45.4

Capital structure

At March 31, 1977 total capitalization was as follows:	In thousands of dollars	% of total
Common shares	$ 56,393	
Accumulated earnings retained for use in the business	76,615	
Total common equity	133,008	34.3
Preference share equity	42,445	10.9
Total equity	175,453	45.2
Long-term debt (exclusive of portion to be retired within 12 months and carried on the balance sheet as a current liability)	212,220	54.8
Total capitalization	$387,673	100.0

construction of new transmission regulator stations and the upgrading of existing stations.

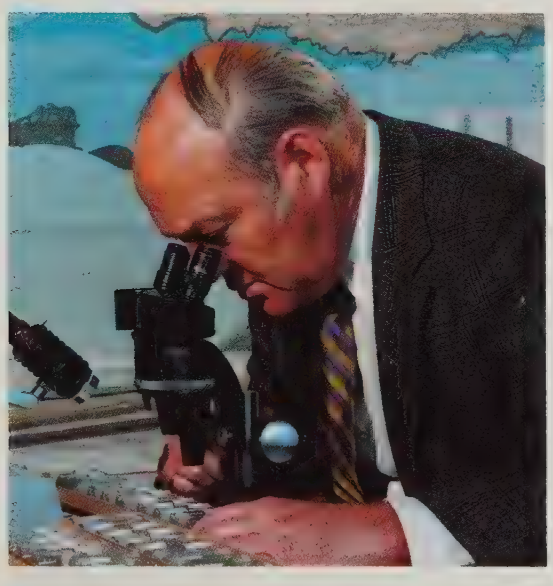
As a result of analyses of system efficiency, based on projections of anticipated load, a 26,400 horsepower turbine driven compressor will be purchased and installed at the Dawn station in fiscal 1978 at a cost of $8.4 million. Installation is expected to be completed by this fall. This will be the first application of a unit of this type to an integrated storage and transmission system, offering maximum flexibility and efficiency of operation for both functions.

Gas supply

The total volume of natural gas purchased and produced in fiscal 1977 was 230.4 billion cubic feet (Bcf), a decrease of 29.3 Bcf, or 11.3%, from the prior year. Of the total, TransCanada PipeLines Limited supplied some 223.8 Bcf, or 97.1%. The decrease in volumes purchased is largely accounted for by the reduction in deliveries from TCPL resulting from the emergency exchange agreement to permit diversion of supplies to the United States. The volumes received from Panhandle Eastern Pipe Line Company of Houston, Texas were substantially below those received in the prior year. Since 1947 the Company had been receiving gas supplies under various contracts with Panhandle. The last of these contracts expired on November 5, 1976 and could not be renewed due to severe shortages in the United States. Prior to expiration of the contract, Panhandle delivered 2.8 Bcf in the 1977 fiscal year.

On October 12, 1976 Union signed a long-term supply agreement with TransCanada. Deliveries under this agreement will commence November 1, 1977 and will amount to some 14.6 Bcf per year. The volumes available under this new agreement, plus deliveries of synthetic gas under a contract with Petrosar Limited (which will amount to some 7 to 10 Bcf per year) will more than offset the reduction in supplies from Panhandle.

The Company continues to participate in natural gas exploration and development in Southwestern Ontario and has joint venture and farmout arrangements with three separate groups. Western Canadian exploration and development operations are handled from our Calgary office. During the year we participated in the drilling of 20 wells in Western Canada. Ten are indicated oil wells, eight are gas wells, and two are dry holes.



Left: During the summer of 1976,for the first time,drill ships probed deep beneath the icy waters of the Beaufort Sea,searching for reserves of natural gas and oil. (Picture courtesy of Dome Petroleum Limited)

Above: Union Gas Chief Geologist Arthur C.Newton examines the physical characteristics of a sample of rock taken from a potential storage well.

Right: Union Gas continues drilling in Lambton county to develop additional underground storage capacity and to increase the deliverabiity in existing storage fields.

In addition, three farmout arrangements were made, two of which resulted in natural gas discoveries in which the Company will retain an interest.

Gas purchased and produced

Volumes in billions of cubic feet

Source:	Year to March 31 1977	% of total	Year to March 31 1976	% of total
TransCanada	223.8	97.1	244.1	94.0
Ontario producers	3.2	1.4	3.2	1.2
Panhandle Eastern	2.8	1.2	10.0	3.9
Total purchased	229.8	99.7	257.3	99.1
Produced from Company wells	.6	.3	2.4	.9
Total gas supply*	230.4	100.0	259.7	100.0

*Excluding gas transmitted and stored for other companies

Gas storage

The Company operates nine underground storage pools and the value of these storage facilities was again demonstrated during the year under review. On October 16, 1976 we had a record 137.9 Bcf of stored gas; of this 68.9%, or some 95 Bcf, was classified as working gas available for sendout (including some 15 Bcf stored under contract for four other utilities).

Our storage capability enables us to purchase gas at lower average cost, as well as providing assurance of peak day supplies for our customers. It also means that rate increases due to higher gas costs are delayed because of the volumes available from inventory at lower prices. Union is continuously evaluating additional potential storage capability. In February 1977 the Company applied to the Ontario Energy Board to have two more pools designated for storage purposes. These two pools will add approximately 5 Bcf of working storage capability.

The Company provides storage and transportation service under contracts with several other utilities and derives significant revenues from these contracts.

As a result of Union's high storage inventory levels we were able to respond positively when the severe weather conditions experienced last winter caused acute and widespread natural gas shortages in Ohio and other states. Union withdrew additional gas from storage to serve its own markets, thus allowing TransCanada to divert vitally needed supplies to the Columbia Gas Transmission Corporation and others. Deliveries

under emergency arrangements, which were authorized by the National Energy Board and Federal Power Commission, commenced on January 19, 1977 under sixty-day authorizations. Early in March this arrangement was extended to April 6. During the January to April period Union made available 17.8 Bcf, or 66% of the total volume diverted by TransCanada to the U.S. utilities. The gas will be returned to the Company during the period from April to October, 1977. We are pleased that we were able to help alleviate the serious shortages which were experienced in the United States.

As can be seen from charts elsewhere in this Report maximum daily sendout on the system continues to increase significantly. In fiscal 1977, maximum sendout of 2.46 Bcf was an increase of 10.3% over the system peak day last year. The peak day delivery from storage was up 14.2% from the previous year.

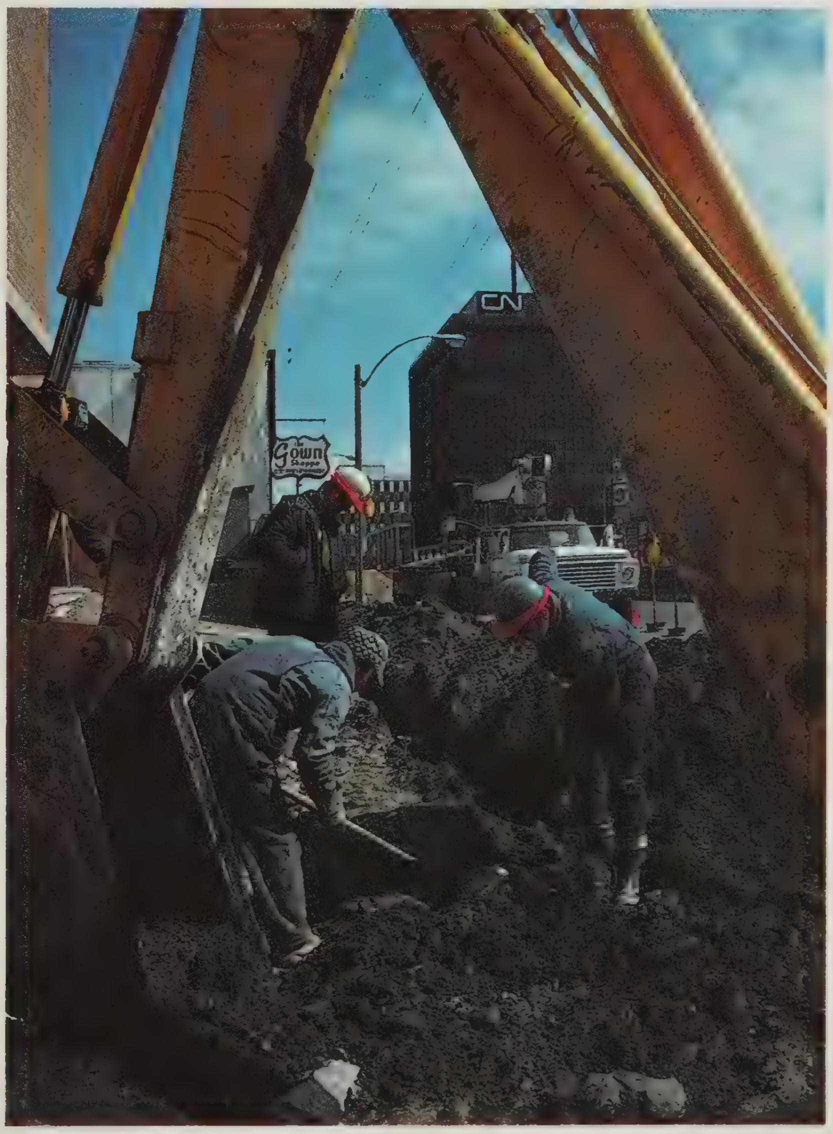
Market and energy management

Union Gas believes that intelligent management of all energy resources is needed to slow the rate of increase in Canada's consumption and still allow for reasonable economic growth. During the remainder of this century natural gas is expected to be called upon to supply an increasing share of Canada's energy needs.

The marketing policies adopted by the Company are directed at expanding sales to all classes of customers while stressing good energy management and the most efficient use of natural gas. The wise use of energy is advocated in our media advertising, literature, displays and public statements. As well, we have conducted seminars and provided advisory services to help business and industry use natural gas most efficiently.

The Company's marketing programs include the necessity to ensure that rate design is established in a fair manner, while flexible enough to meet competition, especially in the large volume industrial market. Federal Government pricing policy for natural gas, at 85% of the commodity value of oil at the Toronto City Gate, has resulted in severe competition in the industrial market.

Support of sales and marketing activities is provided by a service group of over 300 trained and qualified personnel. As well, the Company maintains more than 30 showrooms throughout the service area, retailing modern and efficient gas appliances.



Left: A 4.8 mile section of 42-inch pipe was installed in the fall of 1976 to increase the capacity of Union's Dawn–Trafalgar transmission system.

Above: Prompt,efficient servicing of gas equipment remains a key factor in attracting and holding new business.

Right: Upgrading existing pipelines and installing new mains is an on-going program for construction and maintenance crews.

Employees
As of March 31, 1977 the Company had 2,215 regular employees, an increase of 12 over the same period a year ago.

Training opportunities are offered to employees in order to enhance their skills and qualifications. Such programs have been made available to supervisory, sales and clerical personnel, as well as to the customer service and pipeline maintenance work force. To supplement management training offered within the Company, selected personnel are sponsored to attend specific programs offered by universities and other institutions.

During the year over 100 employees took advantage of the Company's Educational Aid Program which reimburses the employee 75% of the cost of textbooks and tuition fees on successful completion of community college and university extension courses taken outside of working hours. One hundred and ninety-two courses in all were completed during the year.

The Company's benefit program, comprising approximately one-fifth of the dollar value of employee compensation, continues to fulfill its important social and business function, providing a basis for the maintenance of good health and security for employees and their families.

On June 13, 1976, following prolonged negotiations, the Company reached agreement with the two labour unions representing some 1100 employees. New collective agreements expire December 31, 1977. The settlement was, of course, subject to the approval of the Anti-Inflation Board. A subsequent ruling received from that Board resulted in some modification of the original settlement.

Major Holdings & Developments Limited
In April, 1976 Union increased its interest in Major Holdings to 85% of the outstanding common shares. At March 31, 1977 assets of this subsidiary had increased to $61.9 million, compared with $37.1 million a year ago. Gross revenue for the 1977 fiscal year was $18.9 million, a rise of $7 million over the previous year, and Major's contribution to the earnings of Union Gas was 6¢ per share, an increase of 3¢ per share over the previous year. At the time Union acquired control, Major owned land in the Waterloo, Sarnia, Sandwich West, Guelph and Owen

Left: An important aspect of Union's system expansion program each year is the extension of service lines into new residential areas.

Above: Major Holdings' President Abram Wiebe, Vice-President and Assistant General Manager Gerry B.O'Neil.

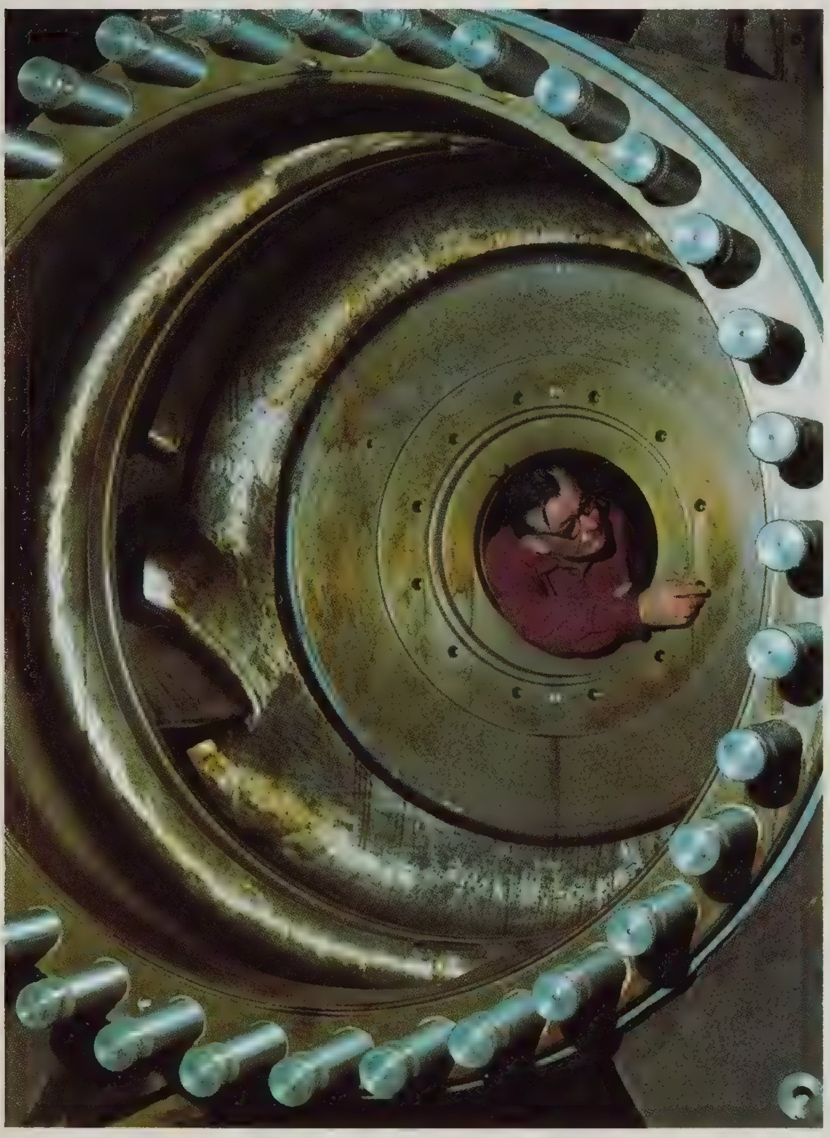
Right: A 26,400 horsepower turbine driven compressor,being assembled for Union Gas at Stratford,will more than double the existing capacity of the Company's Dawn storage/compressor station.

Sound areas. During the year further land acquisition took place in Windsor, Leamington and Chatham, and a number of other opportunities were assessed.

At the year-end Major had outstanding purchase offers on a total of 1,234 residential rental units. During the year a 109,000 sq. ft. industrial mall in Waterloo was completed and work was well advanced on a similar 50,000 sq. ft. project, also in Waterloo. The second project will ultimately be expanded to 300,000 sq. ft. A large block of residential rental properties and a fully leased commercial building were purchased in Windsor. In addition, construction began in November on a six storey 100,000 sq. ft. office building in Kitchener. Major's head office will be located in this building.

Changes in directors

At the Annual Meeting of Shareholders on June 22, 1976 David G. Waldon and Abram Wiebe were elected to the Board of Directors, filling the vacancies created by the death of Ron W. Todgham and the retirement of Hubert B. Keenleyside.



Consolidated Statement of Income ($000's)

For the year ended March 31	1977	1976
Revenue		
Gas sales	$441,994	$304,018
Realty revenue	18,911	
Other income	28,585	23,600
	489,490	327,618
Operating expenses and interest		
Cost of gas	331,644	213,023
Cost of realty operations (note 7)	15,669	
Operating and maintenance costs	50,326	43,918
Property and capital taxes	6,127	5,156
Depreciation and amortization (note 3)	12,216	8,953
Interest and expense on long-term debt (note 4)	18,860	14,713
Other interest expense	6,531	4,350
	441,373	290,113
Income before income taxes and minority interest	48,117	37,505
Income taxes:		
Current	15,443	10,558
Deferred	8,120	7,556
	23,563	18,114
Income before minority interest	24,554	19,391
Minority interest	271	
Net income for the year	24,283	19,391
Dividends on preference shares	3,158	3,180
Earnings applicable to common shares	$ 21,125	$ 16,211
Earnings per common share (note 2):		
Basic	$ 1.34	$ 1.07
Fully diluted	$ 1.25	$ 1.03

(See accompanying notes)

Consolidated Statement of Accumulated Earnings Retained for use in the Business ($000's)

For the year ended March 31	1977	1976
Balance at beginning of year	$67,494	$61,053
Net income for the year	24,283	19,391
	91,777	80,444
Deduct:		
Dividends declared (note 9(b))	13,916	12,852
Expenses on issue of common shares (note 9(f) (i))	1,148	
Amortization of expenses on issue of Class B preference shares	98	98
	15,162	12,950
Balance at end of year	$76,615	$67,494

(See accompanying notes)

Consolidated Balance Sheet ($000's)

Assets	March 31, 1977	March 31, 1976
Properties, plant and equipment — at cost (note 3)	$494,628	$449,063
Less accumulated depreciation	87,056	78,765
	407,572	370,298
Current assets		
Accounts receivable (note 8)	72,070	53,086
Inventories		
Gas in underground storage (note 6)	34,753	57,525
Merchandise, stores and spare equipment	8,904	8,438
	115,727	119,049
Realty assets (note 7)	65,368	
Deferred and other assets		
Mortgages receivable (note 8)	1,058	2,017
Investment in Major Holdings & Developments Limited (note 7)		3,399
Gas Arctic — Northwest Project Study Group expenditures	6,558	4,679
Unamortized debt discount and expense	2,870	2,296
Unamortized preference share issue expense	755	853
Deferred gas costs	5,036	5,391
Other deferred charges	1,434	1,464
	17,711	20,099
	$606,378	$509,446

Liabilities		
Shareholders' equity		
Capital stock (note 9)		
Preference shares	$ 42,445	$ 43,014
Common shares	56,393	31,346
	98,838	74,360
Accumulated earnings retained for use in the business (note 5)	76,615	67,494
	175,453	141,854
Long-term debt (note 10)	212,220	187,506
Realty debt (note 7)	49,967	
Deferred income taxes	75,387	63,890
Minority interest in net realty assets	1,292	
Current liabilities		
Commercial notes and bank loans	21,539	60,741
Accounts payable and accrued charges	42,035	36,658
Dividends payable	3,218	2,941
Income and other taxes payable	7,758	6,418
Accrued interest on long-term debt	4,219	3,447
Long-term debt due within twelve months (note 10)	13,290	5,991
	92,059	116,196
	$606,378	$509,446

(See accompanying notes)

On behalf of the Board: C. M. Harding, Director W. G. Stewart, Director

Consolidated Statement of Changes in Financial Position ($000's)

For the year ended March 31	1977	1976
Funds provided		
Operations (note 11)	$ 46,859	$ 36,948
Long-term debt issued	39,151	29,432
Common shares issued	18,929	
Increase in realty debt	21,849	
Common shares issued for real estate investment	4,970	
Net repayments on mortgages receivable	959	830
	$132,717	$67,210
Funds applied		
Net expenditure on properties	$ 50,367	$ 45,425
Retirement of long-term debt	15,286	7,402
Dividends declared (note 9(b))	13,916	12,852
Purchase of preference shares for cancellation	569	295
Gas Arctic – Northwest Project Study Group expenditures	1,879	1,887
Investment in real estate (Major Holdings & Developments Limited) less related liabilities and minority interest	5,275	120
Increase in realty assets	24,123	
Deferred charges and other items	487	562
Increase (decrease) in working capital	20,815	(1,333)
	$132,717	$67,210

(See accompanying notes)

Notes to Consolidated Financial Statements

1. Significant accounting policies

Regulation: The Company is subject to regulation under The Ontario Energy Board Act and The Energy Act, 1971 (Ontario). The accounting practices followed by the Company are approved as appropriate by the Ontario Energy Board in connection with determining revenue rates. Such rates are designed to provide the utility revenue requirement which takes into account the cost of utility service including an appropriate return on investment.

Basis for consolidation: The accompanying financial statements consolidate the accounts of Union Gas Limited and its subsidiaries, Union Gas Investments Limited, a holding company, and Major Holdings & Developments Limited (Major), a real estate company. The controlling interest in Major was acquired on April 1, 1976. Prior to this date, a minority investment in Major was accounted for on the equity basis (note 7).

Gas sales and cost of gas: The Company follows an industry practice of recording gas sales monthly as billed on the basis of meter readings made throughout the month and does not include in the current month's revenue consumption of gas from the meter reading dates to the month end. Consequently, at each year end there is a volume of gas included in cost of gas for which related revenue will be recorded in the subsequent period when the meters are read and customers billed.

Properties and depreciation: Properties are carried at cost which includes all direct costs, an allocation of overhead incurred during construction, and interest costs applicable to the cost of new properties during the construction period. Interest is capitalized at a rate, based on current cost of capital funds, as approved by the Ontario Energy Board.

Depreciation is provided on the straight-line basis at various rates based on periodic review by consultants of the remaining useful service life of each class of property and approved as appropriate by the Ontario Energy Board. The rates provided during the year ended March 31, 1977 resulted in a composite rate of 3.00% (2.41% in 1976) which includes an increase in the minimum rate to 2.25% approved by the Board and effective April 1, 1976 to recognize limitations in estimated future gas supplies. Had this new minimum rate been in effect for the 1976 fiscal year the provision for depreciation would have been increased by approximately $2,000,000. A request by the Company in its main rate application of November 4, 1975 for a further adjustment in depreciation rates was denied during the year.

Oil and gas exploration and development: All exploratory and development costs under the Company's exploration program being carried out in Ontario and Western Canada are accumulated by geographic areas of interest until the results of each project are determined. Costs related to producing areas are transferred to the appropriate property accounts and costs related to areas determined to be of no interest are written off to income. Exploratory lease rentals not related to the program are charged against income as incurred.

Income taxes: As a result of claiming allowances for income tax purposes for such items as depreciation, certain construction overheads and interest costs, natural gas exploration, and Gas Arctic

expenditures, in excess of amounts charged in arriving at income for the year, income taxes currently payable are less than the total provision for income taxes shown on the statement of income. These deferred provisions for income taxes aggregating $75,387,000 at March 31, 1977 and $63,890,000 at March 31, 1976 are described in the balance sheet as "deferred income taxes".

Inventories: Inventory of gas held in underground storage available for current sale is valued at cost on the first-in, first-out basis.

Inventories of merchandise, stores and spare equipment are valued at the lower of cost on the average cost basis and replacement cost.

Realty operations: Realty assets and realty debt are segregated on the consolidated balance sheet at March 31, 1977 because of the different character of the land development business.

A significant portion of realty assets represents property held for development and sale which is carried at the lower of cost, including applicable interest and property taxes, and net realizable value; related debt is renewed as required or is repaid as properties are sold. Investment properties are carried at cost less accumulated depreciation which is provided primarily using the sinking fund method based on 5% interest rate over 50 years.

Realty income is recognized as follows:

(i) income from land sales is recognized when all material conditions have been satisfied and collection of the unpaid balance is reasonably assured;

(ii) income from housing sales is recognized when the purchaser takes legal ownership of the property;

(iii) income from condominium sales is recognized when the purchaser pays the amount due on closing, is entitled to occupancy and undertakes to assume a mortgage for the balance of the sale price.

Gas Arctic-Northwest Project Study Group expenditures: The Company is one of 15 participants in a study group, operating through Canadian Arctic Gas Study Limited, whose purpose is to obtain the necessary regulatory approvals for the construction of a high pressure gas transmission pipeline from the northern regions of Canada and Alaska to markets in Canada and the United States.

The Company's contributions to the Study are being deferred in the accounts until the feasibility of the project has been determined and necessary regulatory approvals obtained. If the project is approved by the National Energy Board and other applicable regulatory bodies, the Study Group agreement calls for the participants to sell the information and knowledge resulting from the Study and all their interest in the project to one or more pipeline companies incorporated for the purpose of implementing the project, for a price at least equal to the costs incurred. The agreement also provides that the participants shall have an opportunity to acquire an equity interest in the pipeline companies. On the other hand, in the event the project does not proceed, costs not recovered would be charged against operations in a manner to be approved by the Ontario Energy Board.

Unamortized debt discount and expense: These costs are amortized over the terms of the related issues of long-term debt.

Unamortized preference share issue expense: Expenses incurred on the issue of Class B convertible preference shares on March 31, 1975 are being amortized over a ten-year period from April 1, 1975 by regular charges against accumulated earnings retained for use in the business.

Deferred gas costs: To enable the Company's major supplier, TransCanada PipeLines Limited, to finance expansion of pipeline facilities necessary for delivery of required volumes of gas, the Company paid additional gas costs of $5,391,000 to TransCanada in 1972 and 1973, which costs were deferred in the Company's accounts. In accordance with an accounting order received from the Ontario Energy Board, the Company is amortizing these costs over a ten-year period from April 1, 1976.

Other deferred charges: A principal amount included in other deferred charges is the cost of rate hearings, which is amoritized over three-year periods commencing when new sales rates are ordered by the Ontario Energy Board. The first such period commenced April 1, 1976.

Deferred revenue: During the quarter ended March 31, 1977 the Company assisted in the delivery of gas by its main supplier, TransCanada PipeLines Limited, to help relieve emergency shortages in the United States. This export which was authorized by the National Energy Board and the Federal Power Commission, was made possible by Union agreeing to a deferral of contractual supplies during this period from TransCanada, in place of which increased volumes of gas were withdrawn from the Company's inventory of gas in underground storage to meet its own market requirements. The deliveries deferred for Union amounted to 17.8 billion cubic feet and will be delivered by TransCanada by October 31, 1977. Under this arrangement, the Company has received 40¢ per Mcf to offset its handling, storage and transportation costs. These payments are being recorded as revenue, over the term during which the gas was withdrawn and will be re-delivered to storage, on a time and volume basis comparable to charges to the Company's storage and transportation customers. On this basis, $1,794,000 of revenue is included in "other income" in the year ended March 31, 1977 and $5,332,000 of deferred revenue included with accounts payable and accrued charges at March 31, 1977 will be recorded as revenue during the seven month period ending October 31, 1977.

Employee pension plan: Based on a valuation by consulting actuaries during the current year, the unfunded obligation which has resulted from revisions and revaluations of the Company's pension plan is $8,583,000 at March 31, 1977; this is an increase of approximately $4,041,000 over the similar amount at March 31, 1976 resulting mainly from improvements in the plan. The past service obligation and changes resulting from revisions to the plan are charged to operations over a 15 year period from the date of the revision. Changes in the obligation due to revaluations of the plan are charged to operations over a three-year period. Based on actuarial advice, amounts charged against operations in respect of the unfunded liability were $856,000 in 1976 and $1,344,000 in 1977 and the following amounts will be charged against operations for the years ending March 31:

1978 — $1,226,000; 1979 — $1,226,000; 1980 — $1,026,000, and gradually reducing amounts in subsequent years to 1991.

2. Earnings per common share

Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding during the year, which was 15,750,751 shares. Fully diluted earnings per share assume the conversion of the Class B preference shares and the exercise of all outstanding stock options as at the beginning of each fiscal year.

3. Properties and depreciation

Properties, plant and equipment include distribution systems, transmission lines, gas wells and gathering lines, gas storage facilities, base pressure gas, land and buildings, a summary analysis of the cost of which is as follows:

	March 31, 1977	March 31, 1976
	($000's)	
Production	$ 7,913	$ 6,954
Storage	41,846	37,463
Transmission	141,436	133,023
Distribution	256,231	231,449
General	47,202	40,174
	$494,628	$449,063

Included in the properties accounts are costs of $3,443,000 at March 31, 1977 and $2,284,000 at March 31, 1976 related to projects in progress under the Company's program of exploring for and developing natural gas.

Depreciation and amortization shown on the income statement includes those amounts charged directly as an operating expense in the Company's accounts. In addition, $640,000 was allocated partly to other expense accounts and partly to property accounts in the year ended March 31, 1977 (1976 — $507,000).

4. Interest and expense on long-term debt

The amounts shown for interest on long-term debt, including discount and expense amortized, are the amounts charged directly as an operating expense in the Company's accounts. In addition, $503,000 was charged to property accounts in the year ended March 31, 1977 (1976 — $505,000).

5. Accumulated earnings retained for use in the business

The trust deeds and indentures providing for the issue of the Company's bonds and debentures contain certain restrictions regarding the amount that may be paid as dividends. Accumulated earnings retained for use in the business in the amount of $55,466,000 at March 31, 1977 were free from limitation under the most stringent of these restrictions.

6. Inventories

Gas in underground storage available for current sale amounted to 23.2 billion cubic feet at March 31, 1977 and 46.6 billion cubic feet at March 31, 1976.

7. Realty operations, assets and debt (investment in Major Holdings & Developments Limited)

Prior to the 1977 fiscal year, the Company acquired a 37.1% interest in the common shares of Major for a total consideration of $2,920,000. Income from this investment accounted for on the equity basis amounted to $403,000 for the year ended March 31, 1976 after amortization of premium on acquisition. Dividends received during the 1976 fiscal year amounted to $79,000.

Effective April 1, 1976, pusuant to an offer made in March 1976, the Company acquired a further 47.9% of the outstanding common shares of Major for consideration of $190,000 in cash and the issuance of 621,162 Class A and B common shares with a stated value of $4,970,000, on the basis of either ⅝ of a Class A common share of the Company for each share of Major or a cash payment of $2.00 and ⅜ of a Class A common share of the Company for each share of Major. The cost of the Company's total investment in Major at April 1, 1976, which represented 85% of the outstanding common shares, amounted to $8,163,000, including acquisition expenses of $83,000. Union's book value at April 1, 1976 included this cost and accumulated income from this investment, net of dividends received, of $479,000 and has been allocated to net assets at time of acquisition as set out below. The value paid by the Company is equal to Major's book value of each item except "properties held for development" which includes an increase of $4,129,000 to acquired fair value which is more than supported by current appraised values. Realty assets and realty debt at March 31, 1977 are also shown.

	April 1, 1976	March 31, 1977
	($000's)	
Realty Assets:		
Properties held for development	$28,489	$37,960
Investment properties less accumulated depreciation of $354,000 at April 1, 1976 and $475,000 at March 31, 1977	5,396	16,379
Mortgages and other assets	7,360	11,029
	41,245	$65,368
Realty Debt:		
Mortgages payable	17,100	$29,516
Bank indebtedness	5,417	11,832
Other liabilities	5,601	8,619
	28,118	$49,967
Less: Deferred income taxes	3,377	
Minority interest	1,108	
	4,485	
Total investment in Major at book value	$ 8,642	

Subsequent to April 1, 1976, the Company has acquired another 0.6% interest in Major at a cost of $57,000.

The Company has made an option agreement with the former principal shareholder of Major to acquire an additional 300,000 common shares (14%) in the future at a cost determined by formula to be satisfied by issue of Class A common shares.

Mortgages payable bear interest at an average rate of 9.1% with approximate principal payments due in the years ending March 31:

	($000's)
1978	$ 2,768
1979	3,053
1980	3,241
1981	1,453
1982	1,026
Subsequent	11,955
Advances on housing inventory to be assumed by purchasers	6,020
	$29,516

Mortgages payable are secured by property held for development and sale, investment properties and a mortgage receivable. Bank indebtedness is secured by an assignment of mortgages, notes and other amounts receivable, fixed charges on certain properties and a floating charge on all the assets of Major.

Interest on realty debt for the year ended March 31, 1977 amounted to $3,336,000 of which $2,239,000 was capitalized and $1,097,000 was charged as expense and included as cost of realty operations. Depreciation on realty assets amounted to $130,000 and is included as cost of realty operations.

Income taxes on the consolidated statement of income include $1,980,000 related to realty operations.

8. Accounts receivable and mortgages receivable

As part of its normal operations, the Company offers deferred payment finance plans and mortgage financing for appliance sales and gas installation costs. Accounts receivable include merchandise finance plan accounts of which $3,010,000 at March 31, 1977 and $3,444,000 at March 31, 1976 is not due within twelve months. Mortgages receivable include $254,000 at March 31, 1977 and $604,000 at March 31, 1976 in principal instalments due within twelve months.

9. Capital stock and dividends

(a) Details of capital stock are as follows:

	March 31, 1977	1976
	($000's)	
Preference shares:		
Class A shares with par value of $50 each — Authorized: 348,940 cumulative redeemable shares		
Issued: 139,340 5½% Series A	$ 6,967	$ 7,284
90,000 6% Series B	4,500	4,500
119,600 5% Series C	5,980	6,230
Class B shares with par value of $20 each — Authorized: 4,999,890 cumulative shares		
Issued: 1,249,890 8¾% Series 1, convertible redeemable shares	24,998	25,000
	42,445	43,014
Common shares without par value: Authorized: 22,000,242 shares		
Issued: 16,272,285 Class A Shares		
1,660,824 Class B Shares		
17,933,109 Total	56,393	31,346
	$98,838	$74,360

(b) Dividends declared on capital stock are as follows:

	Year ended March 31, 1977	1976
	($000's)	
Preference shares (rate per annum) —		
Class A:		
Series A — $2.75 per share	$ 396	$ 402
Series B — $3.00 per share	270	270
Series C — $2.50 per share	305	314
Class B:		
Series 1 — $1.75 per share	2,187	2,194
Total preference dividends	3,158	3,180
Common shares (current indicated rate per annum)		
Class A — 69¢ per share	9,686	9,271
Class B — 58.65¢ per share	911	340
Tax related to Class B dividends — 10.35¢ per share	161	61
Total common dividends	10,758	9,672
Total dividends	$13,916	$12,852

(c) The Class A preference shares are redeemable as follows:
Series A — at $50.50 per share at any time,
Series B — at $55.00 per share at any time,
Series C — at $51.00 per share until March 30, 1981 and $50.50 per share thereafter.

Under the conditions attaching to the Series A and Series C preference shares, the Company is committed to purchase shares for cancellation if their market prices fall to par or below as follows:
Series A — in amounts up to $170,000 annually,
Series C — in amounts up to $140,000 annually.

As required by the Articles of the Company, a special allocation of retained earnings is shown on the books of the Company to reflect this commitment. During the fiscal year ended March 31, 1977, in compliance with the foregoing conditions, 6,345 Series A shares with an aggregate par value of $317,250 were purchased and cancelled and 5,000 Series C shares with an aggregate par value of $250,000 were purchased and cancelled.

(d) The Class B preference shares, Series 1, are not redeemable prior to March 31, 1980. On and after that date, the shares will be redeemable at the option of the Company at a redemption price of $21.40 per share if redeemed on or before March 31, 1981 and reducing annually in gradual amounts to $20 per share if redeemed after March 31, 1985. In addition, these preference shares are convertible into common shares of the Company on or prior to March 31, 1985 at a rate which is currently 2.2 common shares for each preference share.

(e) The Class A and B Common Shares are voting shares, interconvertible on a share for share basis and rank equally in all respects. The only disctinction between the two classes of shares is that the Directors may elect to pay dividends on Class B Common Shares out of tax-paid undistributed surplus on hand or 1971 capital surplus on hand as defined in the Income Tax Act, in which case the sum of the cash dividend on a Class B Common Share plus the 15% tax paid per share to create tax-paid undistributed surplus is equal to the cash dividend paid on a Class A Common Share. During the year ended March 31, 1977, a net total of 334,921 shares were converted from Class A to Class B Common Shares.

(f) Changes in the number of common shares issued during the 1977 fiscal year are as follows:

(i) pursuant to an underwriting agreement dated March 8, 1977 the Company issued 2,200,000 Class A Common Shares on March 29, 1977 for proceeds of $20,075,000 less a commission of $1,100,000. This commission and related issue expenses were charged to accumulated earnings retained for use in the business.

(ii) 621,162 Class A and Class B Common Shares were issued in connection with the purchase of shares of Major Holdings & Developments Limited as described in note 7.

(iii) 110 Class B preference shares were converted into Class A Common Shares, reducing the number of authorized and issued Class B preference shares by 110 and increasing the number of authorized and issued common shares by 242.

(g) 218,250 Common Shares have been reserved under stock option plans for senior employees at March 31, 1977. During the 1977 fiscal year, options were granted on 44,100 shares at $8.625, and options were cancelled in respect of 23,200 shares at $13.05 and 4,500 shares at $7.31. Amounts under option at March 31, 1977 are as follows:

Number of shares	Option price	Market price at date of option	Date of expiry of option
56,950	$13.05	$14½	April 6, 1978
82,700	7.31	8⅛	October 1, 1980
24,000	6.75	7½	May 16, 1981
4,500	13.06	13¾	December 1, 1981
44,100	8.625	8⅝	November 2, 1982

10. Long-term debt

Details of this debt as at March 31, 1977 and 1976 are as follows:

	Total outstanding	Current liability	Long-term portion 1977	1976
		($000's)		
First Mortgage and Collateral Trust Sinking Fund Bonds:				
5% Series "B", due December 1, 1977	$ 1,904	$ 1,904		$ 1,763
5¼% Series "C", due January 15, 1978	3,970	3,970		4,000
6% Series "D", due October 1, 1977	2,126	2,126		2,357
	8,000	8,000		8,120
Sinking fund debentures:				
6% 1958 Series, due December 1, 1977	3,514	3,514		3,550
6¼% 1961 Series, due July 15, 1981	7,110	460	$ 6,650	7,250
6¼% 1963 Series, due August 15, 1983	8,798	348	8,450	9,000
6⅜% 1965 Series, due September 1, 1985	10,950	525	10,425	10,950
7½% 1967 Series, due January 5, 1987	11,468	443	11,025	11,550
7¾% 1968 Series, due August 1, 1988	16,298		16,298	17,000
9⅛% 1970 Series, due April 1, 1990	250		250	264
8% 1971 Series, due November 15, 1991	19,300		19,300	20,000
8⅜% 1972 Series, due November 15, 1992	15,000		15,000	15,000
8% 1972 U.S. Series, due November 15, 1992 (U.S. $10,000,000)	9,822		9,822	9,822
8¼% 1973 Series, due June 1, 1993	20,000		20,000	20,000
11% 1974 Series, due August 15, 1994	25,000		25,000	25,000
11⅜% 1975 Series, due September 15, 1995	30,000		30,000	30,000
10⅝% 1976 Series, due July 15, 1996	40,000		40,000	
	217,510	5,290	212,220	179,386
Total amounts per balance sheet	$225,510	$13,290	$212,220	$187,506

The U.S. Series is recorded at the exchange rate in effect at the date of issue; based on the exchange rate at March 31, 1977, $10,568,000 Canadian would be required to discharge this series.

The principal amounts of bonds and debentures required to be retired through sinking funds during the next five years ending March 31, are as follows: 1978 — $13,290,000; 1979 — $4,600,000; 1980 — $5,455,000; 1981 — $6,389,000; 1982 — $11,839,000.

11. Funds provided from operations

	March 31, 1977	1976
	($000's)	
Net income for the year	$24,283	$19,391
Add amounts deducted in arriving at net income which did not involve an outlay of funds —		
Depreciation	12,856	9,460
Deferred income taxes	8,120	7,556
Miscellaneous (net)	1,600	541
	$46,859	$36,948

12. Directors' and senior officers' remuneration
Direct remuneration of directors and senior officers totalled $682,000 during the year ended March 31, 1977.

13. Capital expenditures and commitments
Capital expenditures of approximately $64,000,000 are planned for the fiscal year ending March 31, 1978.

In April 1975 the Company announced that it is prepared to invest up to $68 million in the common shares of Canadian Arctic Gas Pipeline Limited to assure long-term, large volume supplies of gas for southwestern Ontario in future years. An initial amount of $50 million would be paid in three equal instalments over an 18 to 24 month period commencing on the date when the Canadian Arctic Gas Pipeline common shares are first offered to the Company. The Company's investment is contingent upon the receipt of necessary government approvals, including recognition of the cost of this investment in the Company's revenue rates, financing conditions being satisfactory to the Company and the Company being able to work out a satisfactory plan for the purchase of Arctic Gas.

14. Anti-inflation program
The Company is subject to the Anti-Inflation Act which, effective October 14, 1975, established guidelines for the restraint of prices and profit margins, employee compensation and dividends.

In the area of price and profit restraint, the Act provides that compliance with the program by regulated companies is to be monitored by their normal regulatory Boards. Pursuant to this provision the Company has filed detailed calculations under the Anti-Inflation Regulations with the Ontario Energy Board in the course of rate applications during the past year. Based on the evidence of the Company and the resulting Board decisions, the Company is satisfied that it is in compliance with the Anti-Inflation program for the 1977 fiscal year. The Company is also of the opinion that its subsidiary, Major, is in compliance with the Act and related regulations.

Until October 13, 1977, without Anti-Inflation Board approval, the Company may not declare or pay dividends to its common shareholders in excess of the current quarterly dividend rate of 17.25¢ for Class A shares and 14.6625¢ for Class B shares.

Auditors' report

To the Shareholders of Union Gas Limited:

We have examined the consolidated balance sheet of Union Gas Limited as of March 31, 1977 and the consolidated statements of income, accumulated earnings retained for use in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at March 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants
Toronto, Canada, May 3, 1977.

Financial and operating statistics

Fiscal years ended March 31

Revenues, expenses and net earnings ($000's)	1977	1976	1975	1974	1973	1972
Revenues:						
Gas sales	$441,994	$304,018	$222,471	$174,592	$151,416	$131,577
Realty revenue	18,911	—	—	—	—	—
Other income	28,585	23,600	18,329	15,319	13,105	11,845
Total revenues	489,490	327,618	240,800	189,911	164,521	143,422
Expenses:						
Cost of gas	331,644	213,023	145,981	109,832	86,453	72,166
Cost of realty operations	15,669	—	—	—	—	—
Operating and maintenance costs	56,453	49,074	41,323	34,684	32,340	29,650
Depreciation and amortization	12,216	8,953	8,127	7,310	6,596	5,977
Interest on long-term debt and other debt	25,391	19,063	16,330	13,179	10,229	9,281
Total expenses	441,373	290,113	211,761	165,005	135,618	117,074
Income before income taxes and minority interest	48,117	37,505	29,039	24,906	28,903	26,348
Income taxes	23,563	18,114	14,829	12,202	12,486	11,474
Income before minority interest	24,554	19,391	14,210	12,704	16,417	14,874
Minority interest	271	—	—	—	—	—
Net income for the period	24,283	19,391	14,210	12,704	16,417	14,874
Preference share dividends	3,158	3,180	998	1,010	1,038	1,046
Earnings applicable to common shares	$ 21,125	$ 16,211	$ 13,212	$ 11,694	$ 15,379	$ 13,828
Basic earnings per common share*	$ 1.34	$ 1.07	$ .87	$ .77	$ 1.02	$ .92
Fully diluted earnings per common share	$ 1.25	$ 1.03	$ .87	$ .77	$ 1.02	$ .92
Dividends declared per common share**	$ .69	$ .64	$ .64	$ .64	$ .64	$ .60

Statement of changes in financial position ($000's)	1977	1976	1975	1974	1973	1972
Funds provided:						
Operations	$ 46,859	$ 36,948	$ 32,251	$ 26,066	$ 30,000	$ 25,590
Long-term debt issued	39,151	29,432	27,522	19,616	24,383	19,618
Increase in realty debt	21,849	—	—	—	—	—
Proceeds from share issues —						
common	18,929	—	—	—	—	38
preference	—	—	24,049	—	—	—
Common shares issued for real estate investment	4,970	—	—	—	—	—
Net repayments on mortgages receivable	959	830	482	1,104	1,714	(—)254
Total	$132,717	$ 67,210	$ 84,304	$ 46,786	$ 56,097	$ 44,992
Funds applied:						
Net expenditure on properties	$ 50,367	$ 45,425	$ 43,805	$ 28,124	$ 32,459	$ 25,426
Dividends declared —						
common shares	10,758	9,672	9,672	9,672	9,672	8,990
preference shares	3,158	3,180	998	1,010	1,038	1,046
Retirement of long-term debt	15,286	7,402	16,691	8,292	5,751	5,180
Purchase of preference shares for cancellation	569	295	105	572	173	293
Deferred charges	487	562	536	1,508	3,911	827
Gas Arctic — Northwest Project Study Group expenditures	1,879	1,887	889	728	1,175	—
Investment in real estate (Major Holdings & Developments Limited) less related liabilities and minority interest	5,275	120	2,800	—	—	—
Increase in realty assets	24,123	—	—	—	—	—
Increase in working capital	20,815	(—)1,333	8,808	(—)3,120	1,918	3,230
Total	$132,717	$ 67,210	$ 84,304	$ 46,786	$ 56,097	$ 44,992

*on basis of the weighted average number of shares outstanding during the year.
**Annual rate per class A common share at year end.

Statistics cont.

Fiscal years ended March 31

	1977	1976	1975	1974	1973	1972
Customers (end of year)						
Residential	371,731	360,943	347,232	336,552	323,042	309,276
Commercial	41,486	39,257	38,284	37,092	35,131	34,309
Industrial	4,405	4,311	4,214	3,970	3,510	3,409
Other utilities	9	10	11	11	8	12
Total	417,631	404,521	389,741	377,625	361,691	347,006
Gas sales — MMCF*						
Residential	52,216	46,273	45,786	44,285	44,294	40,389
Commercial	42,382	39,072	37,866	34,230	31,881	26,736
Industrial	144,884	142,396	143,810	136,897	121,863	102,037
Other utilities	6,196	5,853	5,656	5,086	4,658	4,089
Total	245,678	233,594	233,118	220,498	202,696	173,251
Gas sales revenue — ($000's)						
Residential	$ 125,521	$ 82,616	$ 64,548	$ 53,471	$ 50,561	$ 46,193
Commercial	82,416	57,152	43,109	33,317	29,405	25,063
Industrial	223,743	157,437	110,198	84,362	68,652	57,883
Other utilities	10,314	6,813	4,616	3,442	2,798	2,438
Total	$ 441,994	$ 304,018	$222,471	$174,592	$151,416	$131,577
Average gas use per customer — MCF						
Residential	143.4	131.1	134.7	134.6	140.9	133.5
Commercial	1,052.4	1,014.2	1,013.7	947.3	925.8	790.5
Gas balance — MMCF*						
Gas produced from Company wells	631	2,400	1,759	780	1,888	1,661
Gas purchased:						
Ontario sources	3,185	3,205	3,790	4,812	6,094	8,264
Other sources	226,644	254,164	242,244	239,665	200,736	166,295
Gas received under storage, transmission, etc., contracts, less purchased in place	176,109	169,629	165,162	165,997	118,672	113,543
Total all gas	406,569	429,398	412,955	411,254	327,390	289,763
Gas into storage	59,754	74,331	55,320	55,597	47,526	41,723
Gas out of storage	84,939	51,061	52,422	37,154	46,123	48,769
Net gas into or out of (—) storage	(—)25,185	23,270	2,898	18,443	1,403	(—)7,046
Total gas sent out	431,754	406,128	410,057	392,811	325,987	296,809
Gas sales	245,678	233,594	233,118	220,498	202,696	173,251
Gas delivered under storage, transmission, etc., contracts	178,632	166,393	168,966	163,300	118,931	118,069
Company use	1,617	1,246	1,224	1,048	1,232	1,292
Unbilled, unaccounted for, etc.	5,827	4,895	6,749	7,965	3,128	4,197
	431,754	406,128	410,057	392,811	325,987	296,809
Maximum day send-out — MCF	2,460,448	2,231,330	1,878,710	1,902,613	1,809,654	1,795,959
Gas out of storage on maximum day — MCF	1,425,501	1,247,832	1,169,532	987,016	900,121	1,022,249
Degree day deficiency (Celsius)	4,338	3,751	3,849	3,788	3,863	3,823

*MMCF means million cubic feet

Statistics cont.

Fiscal years ended March 31

Condensed balance sheet ($000's)	1977	1976	1975	1974	1973	1972
Assets:						
Properties	$494,628	$449,063	$408,327	$367,174	$341,820	$312,458
Less accumulated depreciation	87,056	78,765	73,351	66,973	61,999	58,065
	407,572	370,298	334,976	300,201	279,821	254,393
Current assets	115,727	119,049	77,131	53,075	35,596	34,800
Realty assets	65,368	—	—	—	—	—
Deferred and other assets	17,711	20,099	17,788	13,247	11,936	8,302
Total	$606,378	$509,446	$429,895	$366,523	$327,353	$297,495
Liabilities:						
Shareholders' equity —						
Preference shares	$ 42,445	$ 43,014	$ 43,309	$ 18,414	$ 18,986	$ 19,159
Common shares	56,393	31,346	31,346	31,346	31,346	31,346
Retained earnings	76,615	67,494	61,053	57,513	55,491	49,784
Total	175,453	141,854	135,708	107,273	105,823	100,289
Long-term debt	212,220	187,506	164,908	153,599	141,891	122,820
Realty debt	49,967	—	—	—	—	—
Minority interest in net realty assets	1,292	—	—	—	—	—
Deferred income taxes	75,387	63,890	56,334	47,954	42,541	36,166
Current liabilities	92,059	116,196	72,945	57,697	37,098	38,220
Total	$606,378	$509,446	$429,895	$366,523	$327,353	$297,495
Equity per common share						
No par value common shares outstanding (000's)	17,933	15,112	15,112	15,112	15,112	15,112
Equity per share	$ 7.42	$ 6.54	$ 6.11	$ 5.88	$ 5.75	$ 5.37
Properties ($000's)						
Gross book value beginning of year	$449,063	$408,327	$367,174	$341,820	$312,458	$290,127
Additions:						
Plant acquisitions and additions	34,532	34,721	36,601	20,821	24,382	19,278
Plant replacements	15,179	10,049	6,866	7,313	8,177	6,151
Gross additions and replacements	49,711	44,770	43,467	28,134	32,559	25,429
Retirements:						
Gross value of plant retired	4,146	4,034	2,314	2,780	3,197	3,098
Net additions to Properties	45,565	40,736	41,153	25,354	29,362	22,331
Gross book value end of year	$494,628	$449,063	$408,327	$367,174	$341,820	$312,458
Miles of pipelines:						
Gathering and storage lines	410	422	421	461	465	481
Transmission lines	1,800	1,814	1,780	1,755	1,726	1,708
Distribution lines	7,463	7,225	7,033	6,851	6,672	6,448
Total	9,673	9,461	9,234	9,067	8,863	8,637

Head Office: 50 Keil Drive North, Chatham, Ontario N7M 5M1

Union Gas Limited (Incorporated under the Laws of Ontario)

Directors

Ralph M. Barford, Toronto
President, Valleydene Corporation Limited

George H. Blumenauer, Hamilton
Chairman of the Board and President, Otis Elevator Company Limited

John D. Bradley, Chatham
President, Bradley Farms Limited and First Chatham Corporation Limited

Frank Capewell, Chatham
Executive Vice-President, Union Gas Limited

John B. Cronyn, London
Company Director

C. Malim Harding, O.B.E., Toronto
Chairman of the Board, Harding Carpets Limited

Frederick W. P. Jones, London
Financial Consultant

Joseph S. Land, Toronto
Vice-Chairman of the Board, IAC Limited

William G. Stewart, Chatham
President and Chief Executive Officer, Union Gas Limited

David G. Waldon, Toronto
Chairman and Chief Executive Officer, Interprovincial Pipe Line Limited

William H. Watson, Chatham
President, Huron Construction Company Limited

Abram Wiebe, Waterloo
President, Major Holdings & Developments Limited

Donald J. Wright, Q.C., Toronto
Partner, Lang, Michener, Cranston, Farquharson and Wright

Principal officers

C. Malim Harding, O.B.E.
Chairman of the Board

William G. Stewart
President and Chief Executive Officer

Frank Capewell
Executive Vice-President

Henry B. Arndt
Vice-President, Finance

Stephen T. Bellringer
Vice-President, Marketing

R. Glen Caughey
Vice-President, Corporate Planning and Development

Francis M. Edgell
Vice-President, Operations

Donald C. Ingram
Vice-President, Engineering and Gas Transmission

John B. Jolley, Q.C.
Vice-President and General Counsel

J. Edwin Mahoney
Vice-President, Corporate Affairs

John Webel
Vice-President, Administration

Glenn I. Wonnacott
Vice-President, Corporate Personnel

R. Gordon James
Assistant Vice-President, Finance

Edna Crawford
Corporate Secretary

Gerald E. Miller
Treasurer

Transfer agents

Class A Preference Shares

5½% Series A
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

6% Series B
Canada Permanent Trust Company
Toronto, Montreal and Calgary

5% Series C
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg and Calgary

Class B Preference Shares

8¾% Series 1
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

Common Shares (Class A and B)

Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver

The Chase Manhattan Bank
New York

Registrars

Class A Preference Shares

5½% Series A
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

6% Series B
Canada Permanent Trust Company
Toronto, Montreal and Calgary

5% Series C
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg and Calgary

Class B Preference Shares

8¾% Series 1
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

Common Shares (Class A and B)

Crown Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

Canada Permanent Trust Company
Regina

Chemical Bank
New York

Dividend disbursing agent

Class A Preference Shares, Series A, B and C; Class B Preference Shares, Series 1 and Common Shares (Class A and B)

Canada Permanent Trust Company
Toronto

Annual meeting of shareholders

Shareholders are cordially invited to attend the Annual Meeting to be held at the Wheels Motor Inn, 615-635 Richmond St. (corner Keil Drive South), Chatham, Ontario, on Tuesday, June 21, 1977, at 11 o'clock a.m. (Eastern Daylight Time).

SARNIA
Petrolia
Dawn
OWEN SOUND
Meaford
Thornbury
Collingwood
BARRIE
Hanover
Durham
Walkerton
Mount Forest
Harriston
Palmerston
Listowel
Fergus
Goderich
Clinton
Seaforth
Mitchell
Elmira
WATERLOO
KITCHENER
GUELPH
Acton
Georgetown
TORONTO
Trafalgar
Milton
OAKVILLE
BURLINGTON
HAMILTON
Dundas
Stoney Creek
New Hamburg
STRATFORD
CAMBRIDGE
Exeter
St. Marys
Bright
Paris
WOODSTOCK
BRANTFORD
Caledonia
Dunnville
LONDON
Ingersoll
Lobo
Waterford
Strathroy
Tillsonburg
Delhi
Simcoe
Port Dover
ST. THOMAS
LAKE HURON
STATE OF MICHIGAN
PORT HURON
Bothwell
Wallaceburg
Dresden
Thamesville
DETROIT
LAKE ST. CLAIR
CHATHAM
Ridgetown
Blenheim
WINDSOR
Belle River
Tilbury
Port Alma
Essex
Amherstburg
Harrow
Kingsville
Leamington
LAKE ERIE
Union Gas Pipeline System
Serving Southwestern Ontario
Scale: one inch equals approximately 23 miles
Primary and secondary gas transmission and storage pipelines
Major compressor stations
Principal gas storage fields (see inset)
Portion of transmission facilities of TransCanada PipeLines Limited, The Consumers' Gas Company, Great Lakes Gas Transmission Company Ltd. and Panhandle Eastern Pipe Line Company

UNION GAS
LIMITED

1977 ANNUAL REPORT

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